

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 AID-20 CIAE-00 INR-10 NSAE-00

RSC-01 COME-00 TRSE-00 DRC-01 /064 W

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R 302059Z NOV 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1632

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 7214

E.O. 11652: N/A

TAGS: EFIN BL

SUBJ: MONTHLY ECONOMIC REPORT

REFS: (A) STATE 115344; (B) STATE 128009; (C) LA PAZ 2103;  
(D) STATE 071323.

1. MOST RECENT MONTHLY DATA KEYED ACCORDING STATE REFTELS IN  
PARAS 2, 3 AND 4.

2. DATA IN US\$ MILLIONS:

A. GROSS CENTRAL BANK F/X RESERVES: OCT:53.3.

B. NET CENTRAL BANK F/X RESERVES: OCT: 28.3.

1) NET IMF CREDIT: OCT: -19.7.

2) OVERDRAFT: OCT: -4.68.

DATA IN MILLIONS OF BOLIVIAN PESOS:

C. GROSS GOB BORROWING FROM CENTRAL BANK: OCT: 2,635.

D. NET GOB BORROWING FROM CENTRAL BANK: OCT: 2,130.

E. MONEY SUPPLY, 1973: SEPT: N/A.

F. CUMULATIVE CENTRAL GOVERNMENT REVENUES: OCT: 1,773.5.

G. CUMULATIVE INTERNAL REVENUES: OCT: 734.4.

H. CUMULATIVE CUSTOMS REVENUE: OCT: 517.0.

I. CUMULATIVE TREASURY EXPENDITURES: OCT: 2,172.7.

J. CUMULATIVE PESO DISBURSEMENTS, 1971 PROGRAM LOAN AND GRANT  
(\$B MILLIONS): OCT: 164.3.

K. CUMULATIVE PESO DISBURSEMENTS, 1972 PROGRAM LOAN (\$B MILLIONS):  
OCT: 178.3.

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3. IN OCTOBER GROSS F/X ASSETS OF CENTRAL BANK (C/B) DECLINED US\$ 6.5 MILLION WHILE NEX F/X ASSETS DECREASED US\$ 2.9 MILLION. SMALLER DECLINE IN NET POSITION MAINLY REFLECTS REDUCTION IN C/B'S OVERDRAFTS OF US\$ 4.2 MILLION DURING MONTH. C/B SALES OF F/X WERE US\$ 31.9 MILLION OR APPROXIMATELY US\$ 10.3 MILLION ABOVE THE MONTHLY AVERAGE THROUGH SEPTEMBER. PRINCIPAL FACTOR RELATED TO THIS UPSURGE SEEMS TO BE SPECULATIVE OUTFLOWS OF CAPITAL IN ANTICIPATION OF OCTOBER GOB TAX MEASURES. IN EARLY NOVEMBER, HOWEVER, THIS TREND WAS REVERSED WITH SALES SOMEWHAT BELOW DAILY AVERAGE OF EARLY OCTOBER. TOTAL PURCHASES OF F/X IN OCTOBER WERE US\$ 27.3 MILLION OR ABOUT US\$ 6.2 MILLION ABOVE MONTHLY AVERAGE, PRINCIPALLY DUE TO INCREASED DELIVERIES OF F/X FROM MINERAL EXPORTERS (MAINLY FROM THE MINING BANK). THROUGH NOVEMBER 22 PURCHASES BY C/B HAVE MAINTAINED FASTER RHYTHM OF OCTOBER; MOREOVER, C/B WAS ABLE TO BRING INTO F/X RESERVES APPROXIMATELY US\$ 3.9 MILLION FROM TIN BUFFER STOCK DISTRIBUTED PROFITS. THIS COMBINED WITH APPARENT DECLINE IN SPECULATIVE PRESSURE WOULD INDICATE C/B NET AND GROSS F/X POSITION WILL SHOW IMPROVEMENT AT MONTH'S END. (AS OF NOVEMBER 20 NET C/B RESERVES HAD RECOVERED TO US\$ 35.0 MILLION AND PRIMARY RESERVE ASSETS OF C/B STAND AT US\$ 28.1 MILLION ON NOVEMBER 22 COMPARED TO US\$ 21.5 MILLION AT END OF OCTOBER). MOREOVER, COMIBOL RECEIVED IN EARLY NOVEMBER APPROXIMATELY US\$ 5 MILLION PAYMENT FROM WILLIAMS HARVEY FOR TIN HELD IN LIVERPOOL--COMIBOL IMMEDIATELY USED FUNDS TO MEET EXTDJNAL DEBT AMORTIZATIONS AND THUS C/B WAS NOT BENEFITTED BY THIS DELAY IN F/X DELIVERIES. EXCHANGE RECEIPTS FROM DELAYED COTTON EXPORTS TALLING BETWEEN US\$ 10 MILLION TO US\$ 15 MILLION PROBABLY WILL NOT REACH C/B IN 1973, ALTHOUGH IN EARLY 1974 SOME OF THESE PAYMENTS MAY ENTER THE C/B ACCOUNTS. AN INFLUX OF COMMERCIAL BANK MONEY TALLING PERHAPS US\$ 4 MILLION TO FINANCE 1973/74 COTTON CROP SHOULD OCCUR, HOWEVER, OVER NEXT THREE WEEKS. DEBT PAYMENTS, IMPORT REQUIREMENTS OF COTTON PRODUCERS WPLL REDUCE NET INFLOW OF F/X FROM THESE TWO SOURCES. IN GENERAL, BANKING SYSTEM ATMOSPHERE APPEARS MUCH MORE TRANQUIL THAN MORE RECENT PAST. RECENT UNCERTAINTIES CONCERNING DEVALUATION HAVE BEEN ABATED AND GENERAL PUBLIC SEEMS LESS EXCITED ABOUT FISCAL SITUATION.

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4. GOB TREASURY REVENUES IN OCTOBER WERE \$B 205.7 MILLION, ABOUT \$B 35 MILLION ABOVE MONTHLY AVERAGE THRU SEPTEMBER. THE CHIEF FACTOR IN THE INCREASE WAS THE DELIVERY BY YPFB OF PETROLEUM ROYALTIES OF \$B 23.7 MILLION. THE SPECIAL EXPORT TAX COLLECTED ABOUT \$B 32 MILLION BRINGING TOTAL FOR YEAR TO \$B 354.7 MILLION. IN EARLY NOVEMBER COMIBOL MADE A \$B 11.2 MILLION "REGALIA" PAYMENT TO THE GOB TREASURY WHICH MARKS FIRST TIME COMIBOL HAS MADE A DIRECT TRANSFER TO TREASURY SINCE 1967. GOB EXPECTS THAT

COMIBOL WILL HENCEFORTH MAKE MONTHLY PAYMENTS OF \$B 11 MILLION TO TREASURY TO MEET ITS "REGALIA" OBLIGATIONS. GOB INTRODUCED TAX MEASURES WILL PROBABLY HAVE ONLY MARGINAL EFFECT ON GOB REVENUES IN 1973 AND WILL PROBABLY NOT ADD, UNDER MOST OPTIMISTIC ASSUMPTIONS, MORE THAN \$B 150 MILLION TO REVENUES IN 1974 PROVIDED BETTER TAX ADMINISTRATION IS PURSUED DURING YEAR. WE EXPECT REVENUES IN 1974 WILL BE CONSIDERABLY HIGHER THAN IN 1973, HOWEVER, DUE TO HIGHER WORLD COMMODITY PRICES AND CONTINUED ECONOMIC GROWTH. THE TAX MEASURES TAKEN BY THEMSELVES ASSUMING SAME LEVEL OF ACTIVITY AS 1973 PROBABLY WOULD RESULT IN LOWER TAX COLLECTIONS. (SEE LA PAZ A-247). FOR EXAMPLE, REDESIGN OF SPECIAL EXPORT TAX WOULD REDUCE THE EFFECTIVE TAX RATE BY ABOUT 3 PERCENT ON TIN AS WELL AS OTHER METALS. THE 40 PERCENT RETROACTIVE STOCK TAX WILL NOT BE EFFECTIVE IN 1974 AND THUS NOT CONTRIBUTE THE 20 PERCENT SHARE OF THE SPECIAL EXPORT TAX COLLECTIONS WHICH BENEFITTED 1973 GOB REVENUES. WE HAVE RECEIVED INDICATIONS, HOWEVER, THAT ADDITIONAL TAX MEASURES MAY BE TAKEN BY GOB IN MID-1974, IN FISCAL SITUATION SHOWS FURTHER DETERIORATION.

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INFO OCT-01 ISO-00 EB-11 AID-20 CIAE-00 INR-10 NSAE-00

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TO SECSTATE WASHDC 1637

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5. EXPENDITURES IN OCTOBER BY TREASURY WERE APPROXIMATELY \$B 244.8 MILLION OR ABOUT \$B 30 MILLION ABOVE MONTHLY AVERAGE THROUGH SEPTEMBER. THE PRINCIPAL FACTORS WERE HIGHER EXTERNAL DEBT AMORTIZATION/INTEREST PAYMENTS, SOMEWHAT HIGHER TRANSFER PAYMENTS TO OTHER PUBLIC AGENCIES AND INCREASED WAGE PAYMENTS. MOREOVER, GOB FLOATING DEBT APPARENTLY INCREASED REFLECTING TREASURY ATTEMPT TO PUSH-FORWARD CASH REQUIREMENTS INTO FOLLOWING MONTHS.

6. FISCAL DEFICIT IN OCTOBER WAS \$B 39.1 MILLION PESOS WHICH REQUIRED INCREASED NET FINANCING FROM C/B. APPARENT TREASURY DEFICIT THROUGH OCTOBER TOTALS ALMOST \$B 400 MILLION WHEREAS NET C/B FINANCING OF CENTRAL GOVERNMENT TOTALS \$B 324 MILLION THROUGH SAME PERIOD. (C/B LIABILITY ACCOUNTS INCLUDE MORE GOB ENTITIES THAN DO TREASURY ACCOUNTS). FINANCING FROM PADES WAS ABOUT \$B 36 MILLION THROUGH OCTOBER FOR BUDGET DESIGNATED ITEMS. TREASURY, HOWEVER, HAS NEITHER REFLECTED THE EXPENDITURE NOR FINANCING IN ITS ACCOUNTS. IN EARLY NOVEMBER TREASURY RECEIVED ABOUT \$B 43 MILLION AS COUNTERPART FROM ITC TIN BQFFER STOCK DISBURSEMENT OF PROFITS, AND AN ADDITIONAL \$B 7 MILLION OF ITC DISBURSEMENTS TO BOLIVIA FROM COMIBOL (OVER AND ABOVE \$B 11 MILLION "REGALIA" PAYMENT). AS RESULT TREASURY MAY BE ABLE TO REDUCE ITS CALL ON C/B IN NOVEMBER. MOREOVER, WE UNDERSTAND THAT C/B TAKING RELATIVELY STRONG POSITION ON TREASURY BORROWING IN NOVEMBER FORCING TREASURY TO CURTAIL EXPENDITURES AND INCREASE CARRYOVER INTO DECEMBER. POSSIBLY HUGE CALL BY TREASURY ON C/B RESOURCES IN DECEMBER MAY CAUSE SUFFICIENT CONSTERNATION IN GOB CIRCLES TO BRING PRESSURE ON GOB MINISTRIES TO REDUCE BUDGET LIMITED OFFICIAL USE

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REQUESTS ON MINFIN TO EXERCISE GREATER CONTROL OVER THEM IN RECOGNITION MAGNITUDE OF 1974 FISCAL DEFICIT.

7. LIQUIDITY EXPANSION AFTER REMAINING IN DOLDRUMS THROUGHOUT THIRD QUARTER DUE TO HEAVY PRESSURE ON F/X RESERVES OF THE C/B, SHOWED SIGNS OF RECOVERY IN LATE OCTOBER AND SO FAR THROUGH NOVEMBER. F/X RESERVES BEGAN RECOVERING IN NOVEMBER WHILE NET DOMESTPC ASSETS HAVE DECLINED TO LESSER EXTENT, CAUSING LIQUIDITY TO EXPAND. REFLOWS OF SOME PREVIOUS CAPITAL FLIGHT MONEY AND INCREASED RECEIPTS FROM MINERAL EXPORTS MAY PARTLY EXPLAIN IMPROVEMENT. THIS TENDENCY APPEARS TO HAVE BEEN MAINTAINED THROUGHOUT NOVEMBER AND SHOWS SIGNS OF STRENGTHENING ON RUMORS THAT ELECTPCONS WILL BE POSTPONED AND PRESIDENT BANZER'S ANNOUNCEMENT THAT HE WOULD DEDICATE GREATER EFFORT TO SOLVING THE COUNTRY'S ECONOMIC PROBLEMS IN 1974. SHIFT TOWARDS MORE TECHNICALLY QUALIFIED AND ORIENTED GROUP IN ECONOMIC MINISTRIES MAY BE HARBINGER OF STRONGER GOB ECONOMIC POLICIES.

8. COMMERCIAL BANKS AGAIN MOVED FURTHER INTO RESERVE DEFICIENCY IN OCTOBER INDICATING CONTINUED PRESSURE ON CREDIT AVAILABILITY. STATE BANK REPRESENTED ABOUT 80 PERCENT OF THIS DEFICIENCY AS IT ATTEMPTED TO TAKE UP SOME OF THE SLACK LEFT BY FOREIGN BANKS IN PROVIDING COTTON CROP FINANCING. MOREOVER, STATE BANK INCREASED ITS REDISCOUNTS WITH C/B. IN NOVEMBER, NATIONAL BANKS APPARENTLY ARE MAINTAINING THEIR DEFICIENCY POSITIONS, ALTHOUGH C/B TAKING HARDER LINE ON CREDIT EXPANSION OUTSIDE OF COTTON FINANCING.

9. INTERNAL PRICE MOVEMENTS SINCE MID-OCTOBER GOB PRICING DECISIONS HAVE BEEN REMARKABLY STABLE. MOREOVER, IN RECENT WEEKS

DEMAND HAS SHOWN SIGNS OF WEAKENING, PARTICULARLY FOR MEAT PRODUCTS. THIS HAS BROUGHT FORTH SOME MARKET INDICATIONS THAT PRICES MAY BE ON DECLINE, PARTICULARLY FOR MEAT AND OTHER ITEMS SUCH AS EGGS. AGAIN THE PSYCHOLOGICAL ATMOSPHERE WHICH CAUSED EXCESS DEMAND IN EARLIER MONTHS AND WAS LATER VALIDATED BY GOB-GRANTED WAGE ADJUSTMENTS MAY BE BURNING OUT.

10. ECONOMIC FINANCIAL PICTURE REMAINS FOGGY FOR REMAINDER OF 1973, BUT RECENT ENCOURAGING SIGNS AUGUR WELL IN SHORT TERM. FISCAL SITUATION REMAINS WEAK GIVING CREDENCE TO OUR BELIEF THAT 1974 WILL BE A YEAR OF WORSENING PRESSURES. IT IS EXPECTED THAT GOB WILL OPEN 1974 WPTH A LARGE DEFICIT DUE TO AN EXPANDITURE LIMITED OFFICIAL USE

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CARRYOVER OF \$B 250 TO \$B 270 MILLION, IMPLYING THAT GOB WILL BE CONFRONTED IMMEDIATELY WITH TOUGH FISCAL DECISIONS. HOWEVER, THE MAINTENANCE OF STRONG WORLD COMMODITY MARKETS AND INCREASED BOLIVIAN ACTIVITY IN THE AGRICULTURAL/INDUSTRIAL SECTORS WOULD APPEAR TO GIVE HOPE OF A STRUCTURALLY STRONGER ECONOMY. STEDMAN

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## Message Attributes

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